

Company Update

Indus Motor Company Limited

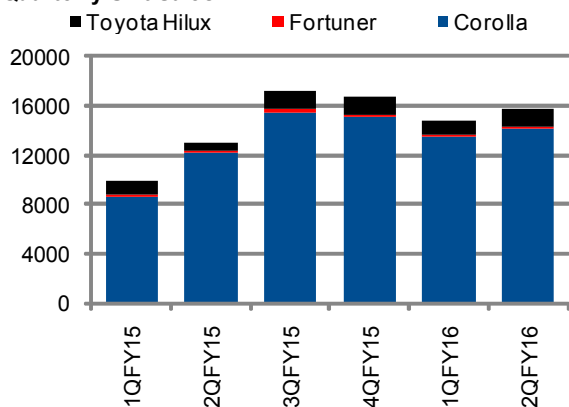
Automobile Assembler

Recommendation	BUY
Target Price	1,245.8
Last Closing	979.8
Upside	27%

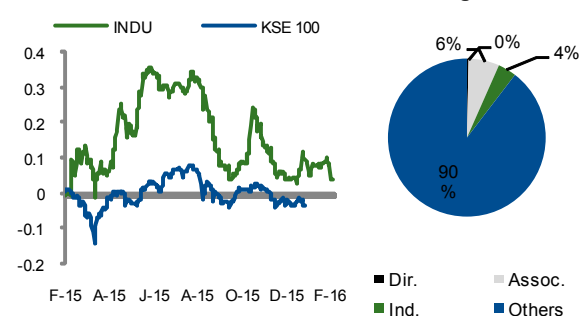
Market Data

Bloomberg Tkr.	INDU PA		
Shares (mn)	78.6		
Market Cap (PKRbn USDmn)	77.0	735.5	
Price Info.	90D	180D	365D
Abs. Return	(7.7)	(20.5)	3.5
Low	990.6	990.6	950.2
High	1,088.9	1,255.1	1,309.2

Quarterly Unit Sales



Relative Price Performance & Shareholding



About the Company

The Company was incorporated as a public limited company in Pakistan in December 1989 and started commercial production in May 1993. The company is the sole distributor of Toyota and Daihatsu vehicles in Pakistan.

Source: Bloomberg, KSE 100 & IGI Research

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Indus Motor Company Limited

Higher Volumes Expected To Generate +68%YoY Growth in Profitability

- Indus Motor Company Limited (INDU) is scheduled to announce its 2QFY16 result on 25th Feb-16, where we expect company to post earnings of PKR 3.38bn (PKR 43.04/share) depicting growth of +68%YoY, due to sales volume expansion and lower input cost due to waning international commodities prices. We anticipate company to announce cash dividend of PKR 20.0/share in 2QFY16, taking 1HFY16 payout to PKR 40.0/share.
- We envisage INDU to improve its gross margins in 2QFY16 by +560bpsYoY/+230bpsQoQ, stemming from the waning price of primary raw material CRC (~60% of total raw material used) by ~39%YoY/~14%QoQ.
- We currently maintain a 'Buy' call on INDU with Dec-16 TP of PKR 1246.4/share, offering an upside of +27%. INDU is currently trading at FY16E P/E and P/B of 8.0x and 2.8x.

2QFY16 earnings to increase by +68%YoY to PKR 43.0/share

Indus Motor Company Limited (INDU) is scheduled to announce its 2QFY16 result on 25th Feb-16. We expect the company to post earnings of PKR 3.4bn (EPS PKR 43.0) compared to PKR 2.02bn (EPS PKR 25.7) same quarter last year, outlining an improvement of +68%YoY. We anticipate company to announce cash dividend of PKR 20.0/share in 2QFY16, taking 1HFY16 payout to PKR 40.0/share. Cumulative earnings for the 1HFY16 period comes to PKR 6.3bn (EPS PKR 80.37) depicting a growth of +101%YoY. This remarkable growth in profitability is on the back of sales volume expansion and lower input cost due to waning international commodities prices.

Sales volume shooting up

Total car sales for INDU increased by +21%YoY/+33%YoY to 15.71k/30.48k units in 2QFY16/1HFY16, which was primarily augmented by Corolla sales, rising by +16%YoY/+34% to 14.17k/30.48k units in 2QFY16/1HFY16. Toyota Hilux sales volume doubled (110%YoY) from 678 units to 1,421 units, while Fortuner sales plunged by 23%YoY from 160 units to 124 units.

Exhibit: Indus Motor Car Sales Units

	2QFY16	2QFY15	YoY	1HFY16	1HFY15	YoY
Corolla	14,169	12,183	16%	27,681	20,729	34%
Fortuner	124	160	-23%	282	361	-22%
Toyota Hilux	1,421	678	110%	2,518	1,793	40%
Total	15,714	13,021	21%	30,481	22,883	33%

Source: IGI Research and PAMA

Margins Expansion led by Lower Input Cost

We envisage INDU to improve its gross margins in 2QFY16 by +560bpsYoY/+230bpsQoQ, stemming from the waning price of primary raw material CRC (~60% of total raw material used) by ~39%YoY/~14%QoQ. In Dec15, company increased its prices in the range of PKR 15k-30k on different variants to cover the additional custom duty of +1%, imposed on completely knocked-down (CKD) units and imported parts.

Outlook

Going forward we have a positive stance on INDU due to a) low auto financing rates, b) weakening commodity prices and, c) expected depreciation of JPY as Bank of Japan (BoJ) will continue its Quantitative & Qualitative Easing (QQE) to reach their inflation target of 2% in 2016 (currently ~1%). However, based on benefits provided to new entrants in draft of AIDP-II, existing players may face pricing competition, going forward, upon the finalization of the policy.

Recommendation

We currently maintain a **'Buy'** call on INDU with Dec-16 TP of PKR 1246.4/share, offering an upside of +27%. INDU is currently trading at FY16E P/E and P/B of 8.0x and 2.8x.

Exhibit: Financial Highlights

PKRmn	2QFY16E	2QFY15A	YoY	1HFY16E	1HFY15A	YoY
Net Sales	26,134	21,821	20%	50,991	39,098	30%
Gross Profit	5,000	2,955	69%	9,193	4,647	98%
Selling & Distribution	235	244	-4%	452	656	-31%
Admin.	190	176	8%	379	354	7%
Other Expenses	396	232	70%	715	360	99%
Other Income	732	690	6%	1,530	1,326	15%
Finance Cost	15	9	61%	35	22	60%
Profit before Tax	4,896	2,983	64%	9,143	4,581	100%
Profit after Tax	3,383	2,017	68%	6,317	3,144	101%
EPS	43.04	25.66		80.37	39.99	
DPS	20.00	20.00		40.00	20.00	
Key Ratios						
Gross Margin	19%	14%		18%	12%	
Net Margin	13%	9%		12%	8%	
Effective Tax	31%	32%		31%	31%	

Source: IGI Research and Company Financials

Analyst Certification

The analyst[^] hereby certify that the views about the company/companies and the security/securities discussed in this report are accurately expressed and that he/she has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report. The analyst is principally responsible for the preparation of this research report and that he/she or his/her close family/relative does not own 1% or more of a class of common equity securities of the following company/companies covered in this report.

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IGI Finex Securities employs three tier ratings system, depending upon expected total return (return is defined as capital gain exclusive of tax) of the security in stated time period, as follows:

Recommendation	Rating System
Buy	If return on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If return on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If return on aforementioned security(ies) is more than -10%, from its last closing price(s)

Valuation Methodology

The analyst[^] has used following valuation methodology to arrive at the target price of the said security (ies):

- FCF(Free Cash Flow)

Time Horizon

- Dec - 2016

Risk

- Changes in State Bank of Pakistan Policy Rate
- Change in Country (Pakistan) macro-economic environment
- Changes in Company(ies) operating structure
- Changes in Exchange rate

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